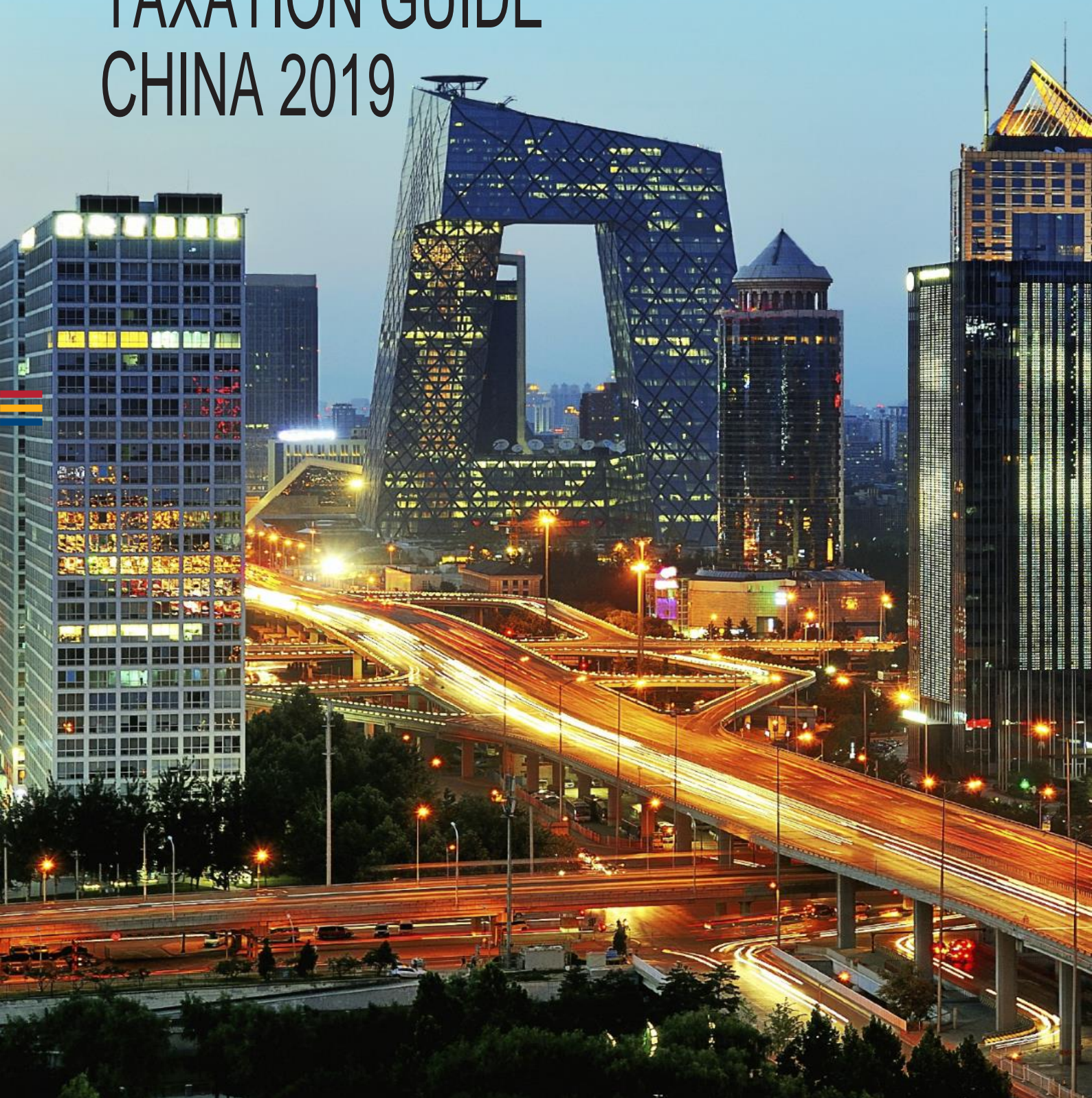


DOING BUSINESS & TAXATION GUIDE CHINA 2019



MAZARS
中审众环



MAZARS IS AN INTERNATIONAL, INTEGRATED AND INDEPENDENT ORGANIZATION, SPECIALIZED IN AUDIT, ADVISORY, ACCOUNTING, TAX AND LEGAL SERVICES. AS OF 1 JANUARY 2019, THE GROUP OPERATES IN 89 COUNTRIES AND DRAWS ON THE EXPERTISE OF 23,000 PROFESSIONALS TO ASSIST MAJOR INTERNATIONAL GROUPS, SMES, PRIVATE INVESTORS AND PUBLIC BODIES AT EVERY STAGE OF THEIR DEVELOPMENT.



1. GENERAL INFORMATION

4



2. FORMS OF BUSINESS VEHICLES IN THE PRC FOR FOREIGN INVESTORS

5



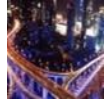
3. SETTING UP A FOREIGN INVESTMENT ENTERPRISE ("FIE")

7



4. IMMIGRATION

10



5. EMPLOYMENT

12



6. FOREIGN EXCHANGE CONTROL

15



7. CORPORATE INCOME TAX ("CIT")

17



8. TRANSFER PRICING ("TP")

19



9. TURNOVER TAXES

21



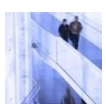
10. OTHER MAJOR TAXES AND DUTIES

23



11. INDIVIDUAL INCOME TAX ("IIT")

27



12. TAX TREATIES

29



13. INVESTMENT THROUGH HONG KONG COMPANIES

30

1. GENERAL INFORMATION



The Government of the People's Republic of China ("PRC")

The National People's Congress ("NPC") is the highest State body and the only legislative house in the PRC. The NPC and its Standing Committee exercise the legislative power of the state.

Size and population

The PRC is located in Central and Eastern Asia with a total area of about 9.6 million km² and is the 4th largest country by area and 1st largest country by population in the world.

Its population is estimated to be 1.39 billion, which represents approximately 19.5% of the world population.

The PRC has diverse climatic conditions. In the North, it is bitterly cold in winter but hot and humid in summer.

In the South, the climate is sub-tropical.

Economic environment

In recent years, the PRC government has been taking measures that aim to achieve steady and moderate economic growth.

In 2018, the Gross Domestic Product grew by 6.6% to around USD 13.46 trillion¹. The PRC is now the second largest economy after the US.

2. FORMS OF BUSINESS VEHICLES IN THE PRC FOR FOREIGN INVESTORS



Common forms of business vehicles for inbound investments into the PRC are as follows:

Before the passing of Foreign Investment Law (“FIL”), foreign investors may take the following three forms of corporation

Wholly Foreign-Owned Enterprise (“WFOE”)

WFOE is a limited liability company wholly owned by foreign investor(s).

Joint Venture (“JV”) enterprise

A Joint Venture enterprise is established by foreigner(s) or overseas company and Chinese company in accordance with Enterprise Laws of Chinese-Foreign Joint Ventures and Enterprise Laws of Chinese-Foreign Cooperative Joint Ventures. Generally speaking, foreign investors must together contribute at least 25% of the registered capital.

In China, two types of JV as following can be incorporated:

- Equity Joint Venture (“EJV”) enterprise
- Co-operative Joint Venture (“CJV”) enterprise

The main difference between EJV and CJV is that profits of EJV are shared among the investors according to their respective capital contributions, however, profit of CJV is distributed in the form of dividend to the parties in proportion to each party's agreed contract.

WFOEs, EJVs and CJVs are collectively referred to as Foreign Investment Enterprises (“FIEs”).

After the passing of FIL which will be effective from 1 January 2020, the PRC Companies Law shall govern the operation of those enterprises. The previously laws on WFOE, EJV and CJV will be replaced. Implementation Rules on FIL have not yet been issued.

Foreign Investment Partnership (“FIP”) enterprise

Since 1 March 2010, it is possible to set up a FIP by two or more foreign individuals and enterprises, or foreign individuals and enterprises with Chinese individuals and enterprises. A FIP is not a legal entity and the partners shall bear unlimited joint and several liabilities for the debts incurred by the partnership. From a tax perspective, partnership in China is a look-through entity and the partner would be subject to PRC tax on its allocated income from the partnership.

Representative Office (“RO”)

A foreign company may establish a RO in the PRC to carry out market research, product or service display, promotion and business liaison activities in the PRC on behalf of its overseas head office. ROs are not allowed to engage in any business activities within the PRC, including signing business contracts, selling goods, providing services, collecting money and issuing invoices, etc.

3. SETTING UP A FOREIGN INVESTMENT ENTERPRISE (“FIE”)



Formation of a FIE

To set up a FIE, the investors are required to submit an application to the Ministry Of Commerce (“MOC”). The main supporting documentation includes the articles of association, feasibility study report and Joint Venture (“JV”) agreement (in case of an EJV or CJV). The articles of association establish the company’s by-laws and prescribe the roles as well as the responsibilities of the board of directors. The JV agreement must clearly state the name and address of the proposed JV, the investing parties, their capital contributions and the nature of the JV’s operation activities.

The MOC is required to decide on the setting-up application within 20 days from the submission date. Upon approval by the MOC, the investors will then apply for the FIE’s business license with the State Administration of Industry and Commerce (“SAIC”) within 30 days of the approval date.

Once the business license is issued, the FIE is officially established. The FIE should then register with different government authorities (e.g. tax bureaus, customs) within 30 days of the date of issuance of the business license.

Registered capital of the FIE

The MOC will determine the minimum amount of capital to be injected into the FIE based on the proposed nature and scale of the FIE’s business. The foreign investors must in total contribute at least 25% of the registered capital. Contributions can be in cash, in foreign currency or Renminbi, fixed assets, equity of Chinese companies, land use rights or intellectual properties. Additionally, for EJV enterprises, the form of capital would need to meet certain requirement for the ratio of equity and debt which is determined by the amount of investment.

According to the revised Company Laws of PRC effective from 1 March 2014, the registered capital shall be the total capital contributions subscribed by all the investors and the amount shall be determined by the investors and also in compliance with the articles of associations. After the full amount of capital contributions has been subscribed, the investors may submit the company registration application to MOC.

Company management

A FIE is managed by its board of directors and management office. The number of representatives from each investor party sitting at the board is generally proportional to its capital contribution. The board is responsible for the company's major decisions and strategic plans. The management office, which is run by a general manager appointed by the board, is responsible for the day-to-day operations of the FIE.

The chairman of the board and the general manager can be foreigners or PRC nationals.

Profit distribution

A WFOE is required to allocate 10% of its after-tax profits to a general reserve, until the balance of the general reserve reaches 50% of its registered capital. The reserve is not distributable but could be used to offset the previous year losses, increase the registered capital or expand the business scale. A WFOE is also required to allocate portions of its after-tax profits to staff reward and welfare reserves but the percentage of contribution remains at the WFOE's discretion.

Dividends can be paid to foreign investors out of the FIE's retained earnings. Dividends distributed to foreign investors are subject to PRC withholding tax ("WHT"). Normally, the standard WHT rate is 10%, however, it could be reduced to a lower rate by virtue of relevant tax treaties. In addition, provided that conditions are fulfilled, payment of withholding tax may be deferred if those relevant dividends are re-invested into certain encouraged projects in China.

Accounting and audit requirements

A FIE is required to maintain its own accounting records and prepare its financial statements. It is also required to submit monthly and annual financial statements to the local tax authorities. The annual financial statements must be audited and certified by a Chinese Certified Public Accountant.

Labor contract law and social security contributions

Under the Labor contract law:

- an employer should enter into written employment contracts with all of its staff;
- the employment contracts should state the duration of employment, job description, compensation arrangement and working condition, such as the maximum working hours (40 hours per week excluding overtime), annual leave and maternity leave entitlements;
- severance payment is set at one month's salary for each year of employment, up to a maximum of 12 years.

Both the employer and employees have to make social security contributions for the employees' housing, pension and medical insurance. The employer is also required to make social security contributions for the employees' work injury and maternity insurance.

Effective from 15 October 2011, the social security contributions are also applicable to foreigners based and working in China.

4. IMMIGRATION



Foreigners working in China must have a valid working permit and visa. Concerning the immigration process, whether you are planning on working in China for a long period or just visit for a short-term mission (under 3 months) a visa is not expendable.

A company based in China looking forward to expatriate an employee or a third party to perform a mission throughout a short time period of less than 90 days will have to prepare an invitation letter in order for his/her employee to be able to apply for a visa. There are many different kinds of visa regarding the purpose and time of your stay in China you should apply for.

Depending on the type of visa you are holding it can be extended into a working residency permit of one year or more if you intend on staying longer. Every demand has its own special kinds of procedures.

If you expatriate an employee to China for a long time period, this process may implement that the employee will have to bring his/her family alongside him/her. Again this will mean a different kind of visa for a different procedure.

We can determine a few categories of visa regarding your situation. You will find below some of the more relevant types of visas that could apply to your situation:

| Categories of visa | Description |
|---------------------------|--|
| M - Business visa | Issued for commercial and trade activities, single-double-multiple entries with a 30 to 60 days duration for each stays. |
| F - Non commercial | Used for cultural exchange, research, lectures, scientific studies. Single and double entry only for a duration of stay of 30-90 days each stay. |
| Z – Work visa | Issued for those who have obtained employment in China or come for a commercial performance. This is a single entry visa only. |
| X1/X2 – Study | For students in an exchange program in China. X1 is for a stay exceeding 6 months. X2 is for less than 6 months. |
| S1 – Private visa | For family members of people working or studying in China. The duration of stay has to be more than 180 days. |
| G – Transit visa | For people transiting in China for 24h, 48h, etc. |

Within the framework of work visas, two situations arise. The stay is either of long or short-term. Depending on the situation there will be a few steps to go through before entering China.

Short-term work visa:

For a short-term work visa you enter in the category “M”. To be able to apply for a “M” visa you will need an invitation letter from a Chinese company in order to apply for a visa at the nearest Chinese embassy.

Long-term work visa:

If you are looking to stay here for a longer period the “Z” visa is the one you need. But before entering China, to meet the necessary conditions to apply for this visa you must have: two years working experience, minimum of bachelor degree and initiate the demand in your country of residence. Here below are the steps to obtain your work permit.



5. EMPLOYMENT



Labor contract:

The relationship between employer and employee must follow the Chinese labor law and Chinese labor contract law. The labor contract is mandatory. In the labor contract the employer must mention that he will take care of social securities and housing fund of the employee according to the provisions planned by the PRC. Moreover, the employer is responsible for declaring and paying the relevant labor charges according to the employee and employers situation.

Salary and minimum wage:

Salary and minimum wage are also set by the local Municipal Human Resource and Social Security Bureau (“MHRASSB”), this may affect both monthly and hourly minimum salary standards. This must be verified with the relevant local department. Each local city has their own minimum wage. See below examples for year 2017:

| City | Monthly Minimum Wage for year 2019 |
|-----------|------------------------------------|
| Beijing | 2120 RMB |
| Shanghai | 2480 RMB |
| Guangzhou | 2100 RMB (2018) |

Legal holidays:

Legal holidays are to be taken in account when companies plan their activities. When unable to do differently, employees are to be given “additional wages” when working during public holidays. Moreover, concerning annual leave there is a minimum fixed by the laws and regulations of the People’s Republic of China. This minimum depends on the employee’s seniority in the company.

Social Welfare:

The threshold basis to calculate the monthly social welfare is three times the yearly average salary of the city. In China the applicable rate for social charges and others depend on the city you are in. Make sure to check with your local Human Resource Department in order to obtain the relevant information and the official average wage of the city you are in. Local MHRASSB are responsible for publishing the information regarding employment laws and regulations. You will find below the new applicable rates for the cities of Beijing, Shanghai and Guangzhou:

Applicable rate from 1st July 2018 to 30th Jun 2019, Beijing

| | Maximum basis | Employer | Employee |
|------------------------|---------------|----------|----------|
| Pension | 25401 RMB | 19.00% | 8.00% |
| Unemployment insurance | 25401 RMB | 0.80% | 0.20% |
| Medical insurance | 25401 RMB | 10.00% | 2%+3 |
| Injury insurance | 25401 RMB | 0.2-1.9% | N/A |
| Maternity insurance | 25401 RMB | 0.80% | N/A |
| Housing fund | 25401 RMB | 12.00% | 12.00% |

Applicable rate from 1st April 2019, Shanghai

| | Maximum basis | Employer | Employee |
|------------------------|---------------|----------|----------|
| Pension | 23496 RMB | 20.00% | 8.00% |
| Unemployment insurance | 23496 RMB | 0.50% | 0.50% |
| Medical insurance | 23496 RMB | 9.50% | 2.00% |
| Injury insurance | 23496 RMB | 0.32% | N/A |
| Maternity insurance | 23496 RMB | 1.00% | N/A |
| Housing fund | 19512 RMB* | 7.00% | 7.00% |

*Maximum basis of Housing fund will be changed into RMB21396 RMB from 1st July 2018.

Applicable rate from 1st July 2018 to 30th Jun 2019, Guangzhou

| | Maximum basis | Employer | Employee |
|-------------------------------|---------------|------------|----------|
| Pension | 20004 RMB | 14% | 8% |
| Unemployment insurance | 24654 RMB | 0.64% | 0.20% |
| Medical insurance | 24654 RMB | 6.50% | 2% |
| Injury insurance | 24654 RMB | 0.14-0.98% | N/A |
| Maternity insurance | 24654 RMB | 0.85% | N/A |
| Housing fund | 24654 RMB | 5%-12% | 5%-12% |

The maximum basis of each of the above charts are based on the average salaries of each city for the year of 2017 (except for Shanghai). It is reviewed by the Chinese government each year from April (in Shanghai) to Jun (in Beijing and Guangzhou). Don't take these basis into account for all 2019.

6. FOREIGN EXCHANGE CONTROL



The State Administration of Foreign Exchange (“SAFE”) and its branches is the main body responsible for supervising and monitoring foreign exchange transactions.

According to the PRC Foreign Exchange Control Regulations, foreign exchange transactions are categorized into current account and capital account items:

Current account items cover foreign exchange transactions that entail goods, services, remunerations, dividends, interest, gifts and compensations.

Capital account items cover foreign exchange transactions that entail direct investments.

A FIE is required to register with the SAFE. It may open separate foreign exchange (“forex”) bank accounts for current and capital account items with designated banks.

For current account items, a FIE may receive and sell as well as purchase and remit foreign currency through its forex bank account. The FIE is generally required to provide information and supporting documentation to the bank or SAFE to substantiate the transactions.

With the issuance of Huifa [2013] No.30, effective from 1 September 2013, the procedures to apply for a forex remittance with regard to service trade are further simplified. In addition, under the Announcement [2013] No. 40 of State Administration of Taxation (“SAT”), a record filing system replaces the tax clearance certificate for outward remittance. Furthermore, the record filing requirement is waived for a forex payment less than or equivalent to USD 50,000.

As for forex transactions of capital account items, a FIE is generally required to obtain prior approval from the SAFE.

From a forex control perspective, foreign investors should be aware that:

- a FIE must have its export proceeds remitted back into the PRC;
- a FIE must register its foreign exchange borrowing with the SAFE;
- a FIE, with prior approval from the SAFE, may open a forex account with a bank outside the PRC;
- an expatriate is allowed to remit his/her PRC-sourced salaries and other legitimate income out of the PRC after tax clearance.

However, the reform of China (Shanghai) Pilot Free Trade Zone introduces policy innovations with regard to forex administration in the zone on the following aspects:

- it further simplifies the forex registration procedures for direct investment and delegates the administration authority to banks;
- it relaxes the verification for current account items on both forex inflow and outflow;
- it deregulates the administration on forex borrowing and lending;
- it improves the forex pilot policy relating to multinational companies with regard to forex central management, cash pooling and settlement centers for international trades, etc.



7. CORPORATE INCOME TAX (“CIT”)



The existing corporate income tax system was introduced and has been in effect since 1 January 2008.

The CIT law governs the income tax levied on domestic enterprises, FIEs and foreign enterprises.

Resident enterprise

An enterprise that is established under PRC laws, or an enterprise that is established under the laws of a foreign country / region but maintains its place of effective management within Mainland China, is considered a PRC tax resident enterprise and is therefore subject to CIT on its worldwide income. The place of effective management of an enterprise refers to the place where the overall management and control of the production, operation, personnel, finance and properties of the enterprise are exercised.

Non-resident enterprise

An enterprise established under the laws of a foreign country / region maintaining its place of effective management outside Mainland China, is considered a non-PRC resident enterprise and will be subject to CIT on its PRC-sourced income, and non- PRC-sourced income that is effectively connected with its institutions / workplaces (i.e. establishment) in the PRC.

Income tax rates

The statutory CIT rate is 25% but certain types of enterprises may enjoy reduced CIT rates (see below).

Passive income (including dividends, interests, rental, royalties and capital gains) derived by non-resident enterprises from the PRC is subject to PRC withholding tax (10%), which can be subject to reduction or exemption by applicable tax treaties.

For example, under the tax arrangement between Mainland China and Hong Kong, Hong Kong tax resident companies may enjoy reduced PRC withholding tax rate on dividends at 5% and on interest and royalties at 7% upon the fulfillment of certain conditions.

Deductions

According to the CIT law and implementation rules, the costs and expenses related to the business and its operation would be entitled for deduction in calculating taxable profit. However, deductions of certain expenses are capped. These expenses include staff welfare, labor union fund contribution, staff education, entertainment, advertising and promotion, and charitable donations. In addition, costs and expenses can only be deducted when proper legitimate vouchers such as fapiao are available.

Corporate Income Tax incentives

Under the existing CIT regime, tax incentives are mainly technology and industry oriented. Specifically, the income from technical transfers by a resident company can be exempted from CIT for up to RMB 5 million; for the part above RMB 5 million, a reduction by half CIT is available. The applicable CIT rate for qualified high-tech enterprises and advanced technology service enterprises could be reduced to 15%; a super deduction is available for expenditures on researching and developing new technologies, new products and new techniques; a qualified newly established software production company could be granted a “2-year exemption and 3-year reduction by half” preferential CIT treatment.

8. TRANSFER PRICING (“TP”)



In general, the TP concepts in the PRC follow the principles of the OECD Transfer Pricing Guidelines with some variations. The CIT law and regulations do not prescribe any preferred TP methods. Taxpayers may use any of the acknowledged methods to determine their transfer prices as long as the methods are defensible and commercially justifiable.

Corporate taxpayers in the PRC are required to file the following nine forms in relation to their related-party transactions, together with their annual CIT returns by 31 May of the following year:

- Related parties
- Related-party transactions
- Sales and purchases
- Services
- Transfer of intangible assets
- Transfer of fixed assets
- Financing
- Outbound investment
- Outbound payments

Unless they are specifically exempt under certain designated conditions, corporate taxpayers are also required to prepare contemporaneous documentation with detailed information requirement— notably in the following five main categories:

Organizational structure

- Overview of business operations
- Information on related-party transactions
- Comparability analysis
- Transfer pricing method selection and application

The deadline for completing contemporaneous documentation is 31 May of the following year. The documentation must be kept for ten years and be ready for submission to the tax authorities upon request.

Transfer pricing novelty of 2016:

On 29 June 2016, the SAT issued a public notice regarding refining the reporting of related party transactions and administration of transfer pricing documentation. The “Bulletin 42” provides hereinafter new transfer pricing compliance requirements in China. This includes annual reporting forms for Related Party Transaction (“RPT” Forms); Country-by-Country Reporting (“CbCR”); and Transfer Pricing Documentations (“TPD”). These new reporting guidelines are substantial changes to the existing rules, replacing the applicable sections in the existing regulations (i.e., Chapters 2 and 3, and Articles 74 and 89 of the existing transfer pricing documentation regulations in Circular Guoshuifa [2009] No.2 (“Circular 2”) and Circular Guoshuifa [2008] No. 114).

Therefore, we strongly recommend taxpayers to take actions as soon as possible in order to identify and bridge the gaps between the old TPD and the new one as “Bulletin 42” has already applied.



9. TURNOVER TAXES

Value-Added Tax (“VAT”)



VAT is levied on all units and individuals engaged in the sale or importation of goods, or the provision of processing, repair or replacement services. VAT is calculated based on the sales value of the goods or the mentioned service.

Under the original pilot BT/VAT reform, VAT taxable services included transportation services, R&D and technology services, IT services, design services, transfer of trademark, goodwill and copy rights, intellectual property related services, advertisement, conference and exhibition services, logistics related services, lease of movable tangible assets as well as certification, authentication and consulting services (“Taxable Services”).

Starting from 1st May 2016, all Taxable Services provided by or provided to tax payers located in China shall be subject to VAT and no longer BT.

General taxpayers

A general VAT payer can issue VAT invoices and credit its input VAT against its output VAT. The applicable VAT rates for calculating output VAT of Taxable Services are as follows:

- 13% for lease of movable tangible assets;
- 9% for transportation services; and
- 6% for other Taxable Services

Small - scale tax payers

A small-scale VAT payer shall pay VAT at 3% on the gross amount for its Taxable Services and is not able to credit any input VAT. A small-scale VAT payer also cannot issue VAT invoices by itself, but can ask the tax authority to issue VAT invoices for it.

A tax payer providing Taxable Services with an annual transaction value of above RMB 5 million is required to apply for the general VAT payer status. Small-scale enterprises with a transaction value below this threshold can also become general VAT payer upon application, if they keep proper accounting records.

Exportation of Taxable Services

VAT at 0% applies for international transportation services, R&D services and design services provided to foreign customers.

To achieve the effect of 0% tax rate for the above Taxable Services, Circular 37 provides the applicable VAT treatments for different types of VAT payers.

VAT payable by foreign tax payers

Foreign tax payers providing Taxable Services to their Chinese customers are also subject to VAT. In such case, the Chinese customers shall normally act as the tax withholding agent. Such VAT paid by the foreign tax payers can be recovered by the Chinese customers by crediting as input VAT against their output VAT, provided that they are general VAT payers. Therefore, it is commercially reasonable for foreign tax payers to charge the relevant VAT costs to their Chinese customers.

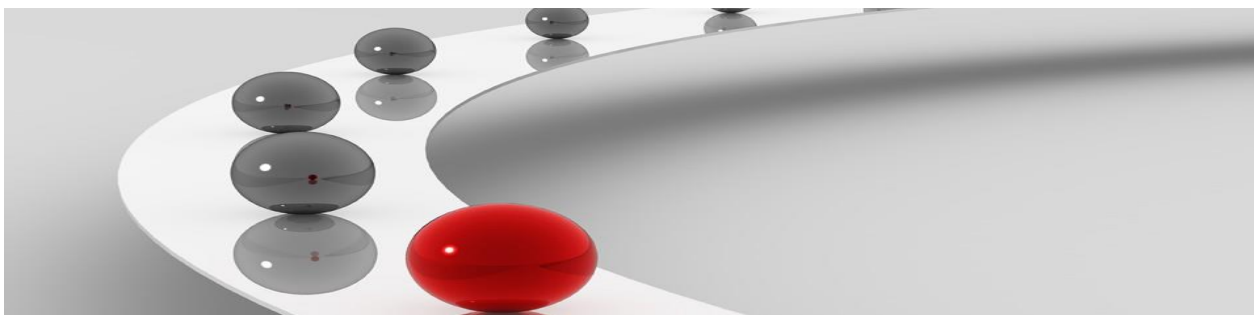
Consumption Tax ("CT")

CT is levied on manufacturers and importers of 14 types of consumer goods such as motor cars, jewellery, tobacco, liquor, cosmetics and petrol.

The CT rates range from 1% to 56%. For certain types of goods, CT is calculated by fixed amounts of CT per taxable unit.

Source: <https://cms.law/en/NLD/Publication/China-announces-extension-of-the-BT-VAT-reform-all-over-the-coun>

10. OTHER MAJOR TAXES AND DUTIES



Land Appreciation Tax (“LAT”)

When a property owner (whether it is a land or building) makes a gain from a property transfer, the gain is subject to LAT and taxed at progressive rates:

| Appreciated value as a percentage of the total deductible costs | LAT rate (in %) |
|---|-----------------|
| Not exceeding 50% | 30% |
| Exceeding 50% but not exceeding 100% | 40% |
| Exceeding 100% but not exceeding 200% | 50% |
| Exceeding 200% | 60% |

Deductible costs include:

- Acquisition cost of land use rights
- Project development costs and expenses
- Taxes paid for the property transfer

Property developers are entitled to claim an additional deduction of 20% on the acquisition cost of land use rights and project development costs.

Furthermore, a property developer may be required to file provisional LAT on a monthly or quarterly basis. The provisional LAT is calculated at 0.5% to 5% of the sales proceeds under the project, depending on the type and location of the properties.

For a real estate development project which construction has been certified as completed by various government authorities, the tax authorities may require the property developer to settle LAT when:

- more than 85% of the saleable floor area of the whole project has been sold;
- or 85% or less of the saleable floor area has been sold and the remaining saleable floor area has been leased out or used by the property developer itself.

Resources Tax

All units and individuals engaged in the extraction of mineral resources (e.g. natural gas, crude oil and coal) or the production of salt within the PRC are subject to resources tax.

The resource tax rate applicable to crude oil and natural gas products is 5% to 10% of the sales volume. In terms of the resource tax, the tax amount standard for other tax items varies from RMB 0.3/ton to RMB 60/ton, depending on the kinds and locations of the resources.

Taxable items and tax rates

| Taxable items | Tax amount per unit |
|---------------------------|---------------------------------------|
| 1. Crude oil | RMB 8-30 per ton |
| 2. Natural gas | RMB 2-15 per 1000 cubic meters |
| 3. Coal | RMB 0.3-5 per ton |
| 4. Other non-metal ores | RMB 0.5-20 per ton or per cubic meter |
| 5. Ferrous metal ores | RMB 2-30 per ton |
| 6. Non-ferrous metal ores | RMB 0.4-30 per ton |
| 7. Salt | |
| (1) solid salt | RMB 10-60 per ton |
| (2) liquid salt | RMB 2-10 per ton |

The Resource Tax Reform

As defined by the SAT and the MOF, the purposes of the Resource Tax Reform is to increase the elasticity of the Resource Tax system, eliminate duplicate local surcharges, enhance the authority of provincial government, and gradually cover more natural resources as taxable items. The Circulars set out the following new policies for implementation in the first stage of the reform:

- Change the tax basis from quantity to price.
- Grant provincial governments the power to determine the applicable local tax rates
- Eliminate the Mineral Resource Compensation Surcharge and the Price Regulation Fund Surcharge.
- Launch a Trial Water Resource Tax Pilot Program in Hebei Province.

Source: <http://www.icalculator.info/china/guides/resource-tax.htm>

Customs duties

General information

Import duties vary depending on any preferential tariff arrangements between the PRC and the country of origin.

- Customs duties are imposed on imported goods, independently of VAT and CT. VAT and CT are imposed on the customs-duty-inclusive value of the imported goods.
- Freight, insurance and other prescribed expenses are included as part of the dutiable value of the goods.
- Customs duties have to be paid within 15 days after Customs issues the duty payment notice.
- Export duties are only imposed on limited types of goods, for example, certain mineral ores, wooden floor, disposable chopsticks, etc.

Exemptions

Enterprises that are engaged in contract processing or import processing arrangements may claim customs duties and VAT exemption on importation of raw materials, provided that the products manufactured under the arrangement are for exports. Importation of machinery and equipment for use under such arrangements may also be exempt from customs duties, if certain conditions are satisfied. A FIE engaged in a project that is classified as “Encouraged” under the Guidance Catalogue for Foreign Investment Industries may enjoy customs duties exemption for the importation of equipment, provided that:

- The equipment is imported for self-use;
- The value of the equipment is covered by the total investment amount of the FIE; and
- The equipment does not fall within the items listed in the “Catalogue of Non- exempt Commodities Imported for Foreign-invested Projects”.

Importation of raw materials into Free Trade Zones and Export Processing Zones is exempt from customs duties and import VAT, provided that the finished goods are not subsequently sold in the PRC. Importation of machinery and equipment for use within these zones are also exempt from customs duties and import VAT. The import and export declaration procedures in these zones are different from those in other locations.

Enterprises may claim customs duties exemption for machinery and equipment that are imported temporarily into the PRC (i.e. no more than 6 months, with possible extension to one year). However, the importer is required to make a guarantee payment that is equivalent to the customs duties otherwise payable under general import.

Stamp duty

Stamp duty is levied on dutiable instruments (such as sales and purchase contracts, leases and property title transfer agreements) that are executed, used or received in the PRC. Stamp duty rate ranges from 0.005% to 0.1%.

Real Estate Tax ("RET")

Owners and mortgagees (and in certain circumstances, custodians and users) of buildings are subject to RET. According to the national RET regulations (subject to local variations), RET may be imposed on the following two principles:

- For properties not rented out: Original value of the property x (1 – statutory deduction %, ranging from 10% to 30% depending on the locality) x 1.2%
- For properties rented out: Rental income x 12%

Deed tax

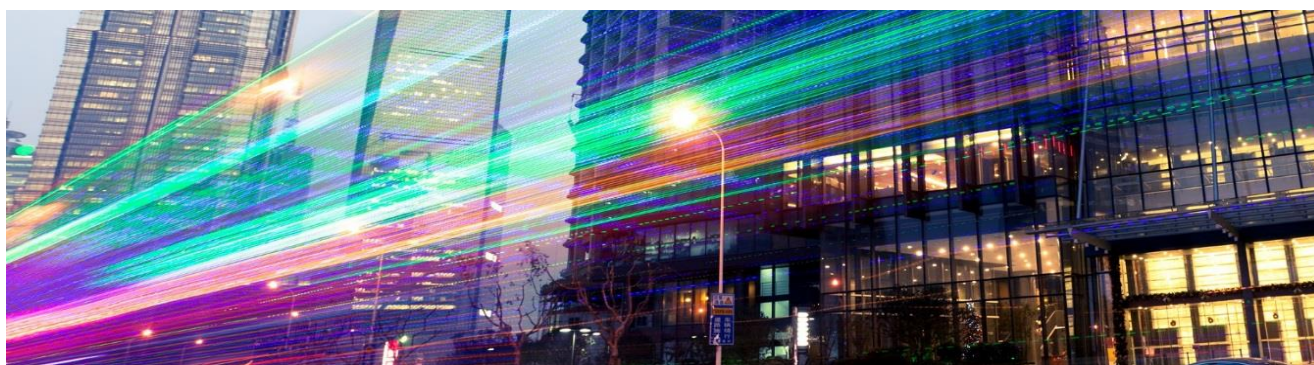
The transferees (including purchasers and donees) of land and buildings are subject to deed tax.

Deed tax rate ranges from 3% to 5%, depending on the location and is imposed either on the transaction price or the market value of the land and buildings, as the case may be:

- For the transfer and sale of land use rights, and the purchase and sale of buildings, the basis is the transaction value;
- For the donation of the land use rights, donation of buildings, the tax authorities shall determine the basis according to the market price of the land use rights and the purchase and sale of buildings;
- For the exchange of the land use rights and exchange of buildings, the basis is the difference between the prices of the exchanged land or buildings.

When the transaction price is obviously lower than the market price without valid reasons, or the price difference of the exchanged land or buildings is obviously unreasonable and cannot be justified, the basis shall be determined by the tax authorities according to the market price.

11. INDIVIDUAL INCOME TAX (“IIT”)



General

IIT is charged on income earned by individuals.

- PRC resident individuals are subject to IIT on their worldwide income.
- For non-residents, the IIT treatment depends on the length of their stay in the PRC and the source of income. Non-residents may enjoy IIT exemption if a tax treaty has been signed between the PRC and their home countries.

| NON-RESIDENT STATUS | IIT SCOPE |
|---|---|
| Less than 90 days/183 days | PRC-sourced income paid/borne by PRC entities/establishments |
| More than 183 days for each year in less than 6 years in a row or 6 years or more in a row with a single trip of more than 30 days outside China | PRC-sourced income + foreign-sourced income paid/borne by PRC entities/establishments |
| More than 183 days for each year in 6 years or more without a single trip of more than 30 days outside China | Worldwide income (starting on 7th year of their stay) |

Under the IIT law, there are 6 types of taxable income:

- comprehensive income
- Income from operations
- interest, dividend and distributed profit
- Income from lease of property
- Income from transfer of property
- Contingent income

The IIT calculation methods vary for different types of income.

Comprehensive income includes salaries and wages, income derived from remuneration for personal

services, income derived from remuneration for manuscript and income from royalties. Comprehensive income is taxed at progressive rates ranging from 3% to 45%. Every month the employer of the expatriate should report the taxable employment income of the expatriate in an IIT return, withhold the IIT from the expatriate's payroll, and remit the IIT to the responsible tax authority. Under the IIT regulations, some employment benefits provided on a reimbursement basis to expatriates working in the PRC are not subject to IIT, for example:

- Provision of accommodation or rental reimbursement
- Reimbursement of transportation expenses incurred by the expatriate for traveling between the place of employment in the PRC and the family residences, limited to two trips a year;
- Reimbursement of relocation and moving costs upon commencement or cessation of the PRC assignment;
- Reimbursement of language training expenses for the expatriate;
- Reimbursement of education expenses incurred in the PRC for the children of the expatriate; and
- Reimbursement of meal and laundry expenses.

Such expenses should be in reasonable amounts. Furthermore, the expatriates need to provide valid tax invoices for these expenses.

The regulations mentioned that from 1st January until December 2021, expatriates can still enjoy these additional tax deductibles items listed above or choose to the specific itemized deductions listed below, but not both.

- Child education
- Continued education
- Serious illness
- Rental cost
- Mortgage interest
- Elderly support

Foreign tax credit

To avoid double taxation, the IIT law and regulations provide that individuals who have paid foreign income tax in respect of foreign income that is taxable in the PRC can be granted foreign tax credit. The credit cannot exceed the amount of IIT otherwise payable on such foreign income. Un-utilized foreign tax credit can be carried forward for five years to cover the IIT liability on future foreign income arising from that particular jurisdiction.

12. TAX TREATIES



To achieve greater economic integration in terms of investment and trade, the PRC has signed tax treaties with other countries. Those treaties are meant to encourage businesses and individuals in other countries to invest and work in the PRC by reducing the potential double tax burdens to be imposed by the two jurisdictions.

Currently, the PRC has signed tax treaties with more than 106 countries and regions, for example:

- Australia
- Canada
- France
- Germany
- Italy
- Japan
- New Zealand
- The Netherlands
- Singapore
- United Kingdom
- United States of America

The PRC has also entered into tax treaties with the Special Administrative Regions of Hong Kong and Macau.

13. INVESTMENT THROUGH HONG KONG COMPANIES




Many foreign investors prefer to set up their investments in China by using Hong Kong companies as holding companies. It is not only because Hong Kong is physically close to mainland China but also because Hong Kong signed a double taxation arrangement with mainland China.

Under this arrangement, the PRC withholding tax on dividends for a Hong Kong holding company can be reduced to 5% instead of 10% (provided that certain conditions are met). Besides, dividends paid from Chinese subsidiaries would not be subject to Profits Tax in Hong Kong. In addition, dividends paid from a Hong Kong company would not further be subject to withholding tax in Hong Kong. Consequently, the Hong Kong company would be tax neutral in the repatriation of profits back to the Investors, but it would benefit a lower PRC withholding tax on dividends from the general 10% to 5%. This provision is more favourable to other similar provisions found in double taxation agreements that China signed with other countries.

Similar benefits can be achieved by having loans advanced to the Chinese entity through a holding company in Hong Kong.

Given that Hong Kong is an international financial centre with a low tax regime, no foreign exchange control and a business friendly atmosphere, it is an ideal place and acts as a gateway to investing in China.

For more information, please refer to Mazars' guide to doing in Hong Kong by [clicking here](#).



*The content of this guide is only for general guidance on matters of interest and is not meant to be comprehensive.
The application and impact of laws can vary widely based on the specific facts involved.*

This guide should not be used or relied upon as a substitute for detailed advice or as a basis for formulating business decisions

CONTACT

Beijing

25th & 26th Floor, Tower A,
Pacific Century Place,
2A North Gong Ti Road, Chao Yang
District
100027 Beijing
T: (+86 10) 8429 8078
E: beijing@mazars.cn

Shanghai

8th Floor, One Lujiazui
No. 68 Yin Cheng Middle Road
200120 Shanghai
T: (+86 21) 6168 1088
E: shanghai@mazars.cn

Guangzhou

1308, Grand Tower
No. 228 Tianhe Road - Tianhe District
510620 Guangzhou
T: (+86 20) 3833 0235
E: guangzhou@mazars.cn